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SEP 26 1955

**MEMORANDUM FOR:** Deputy Director (Support)

**SUBJECT** : Administrative Costs of GEHA

1. At a special meeting on 13 September 1955, the Board of Directors of the Government Employees' Health Association, Inc. (GEHA) discussed at considerable length the discussions and correspondence which have transpired concerning the fixing of financial responsibility for the administrative costs of GEHA. These costs include: salaries of certain employees of the Insurance and Casualty Division (ICD), Office of Personnel; purchase of accounting and other business machines required for the efficient and economical operation of Agency insurance functions, and payment for surety and other personal bonds indicated for proper protection of funds while in the custody of ICD personnel.

2. It appears to the Undersigned that the crux of present discussions centers around an attempt to distinguish between expenses incidental to the maintenance of insurance services for the normal Government Agency and the expenses resulting from the peculiar security restrictions imposed by this Agency.

3. The GEHA was established in order that Agency employees might obtain hospitalization insurance on a group basis without jeopardizing the security of the Agency through divulgence of the strength of the Agency or the names of certain covert and semi-covert individuals. Additionally, life insurance programs were negotiated through GEHA in order to permit Agency personnel to obtain life insurance coverage which might otherwise be denied them or compromise security in its acquisition.

4. The Insurance Branch has been organized by this Agency to administer the programs, established by GEHA, in a manner consistent with the security requirements of the Agency. Personnel of the Insurance Branch collect individual premium payments in order that an aggregate monthly premium may be submitted

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identifying policyholders by number rather than by name and settle claims internally or with the underwriting companies in a manner compatible with the security demands of the Agency. They also perform the many minor details attendant to these two basic functions.

5. Once it has been established that the Agency should permit its personnel to acquire normal insurance protection and that it is an Agency responsibility to assure that such protection is acquired without jeopardizing security, it is believed that the costs resulting from its acquisition in other than a normal manner should be borne by the Agency. It would appear then that the Agency would mandate that this function be executed in an efficient and business-like manner. It would also seem that once it is established that the insurance functions can be more efficiently carried on by the use of business machines (recommended by the Agency's Management Staff) the Agency would consider it a sound economical investment to purchase such equipment.

6. For the reasons stated above, the Undersigned reached the conclusion that all expenses resulting from administration of the GEHA insurance programs in accordance with Agency security requirements should be borne by the Agency and not by GEHA policyholders. It is also our firm opinion that an extensive cost-accounting survey would only serve to confirm our belief that the costs of Insurance Branch salaries, machines and the like are an integral part of the responsibility assumed by the Agency in the establishment of GEHA and its insurance programs in the interests of security. Any benefit which may accrue to Agency employees as a result, is merely incidental to the Agency's requirements.

7. It is the recommendation of the Undersigned, therefore, that the salaries of Insurance Branch personnel, the costs of accounting and other machines used by that Branch, the cost of surety bonds on Insurance and Casualty Division personnel and other related expenses be borne by this Agency.

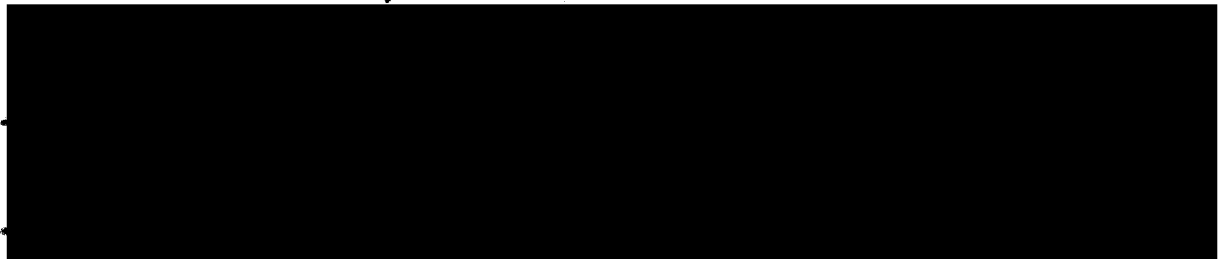
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8. If these recommendations do not meet with your approval, the Undersigned would appreciate the opportunity of discussing this matter with you in greater detail in a group meeting.

The Board of Directors  
Government Employees' Health Association

<sup>151</sup>  
John R. Litzew

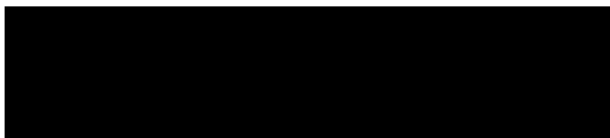


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CONCUR:

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Director of Personnel



Director of Security

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